Damages Apportionment For Infringing A Method Claim When The Smallest Saleable Unit Performs Infringing and Non-Infringing Functions

Article By:

Intellectual Property Practice Group at Mintz Levin

The Federal Circuit's damages apportionment jurisprudence is an ever-evolving area of the law. On January 10, 2018, a three judge panel of the Federal Circuit revisited the issue in connection with a patent covering a method for providing computer security in the case *Finjan, Inc. v. Blue Coat Systems, Inc.* While the Federal Circuit affirmed the damages award for 2 of 4 asserted patents, it reversed as to one computer security patent which was found to be infringed by a product that performed both infringing and non-infringing functions.

In calculating damages, the plaintiff sought the reasonable royalty they "would have received through arms-length bargaining." *Lucent Techs., Inc. v. Gateway, Inc.,* 580 F.3d 1301, 1324

(Fed. Cir. 2009). As explained by the Federal Circuit, calculating a reasonably royalty requires determining the combination of a royalty base and a royalty rate that together reflect "the value attributable to the infringing features of the product, and no more." Ericsson, Inc. v. D– Link Sys., Inc., 773 F.3d 1201, 1226 (Fed. Cir. 2014). If the infringing technology does not make up the whole of the accused product, apportionment is required unless the patentee shows "that the demand for the entire product is attributable to the patented feature." *LaserDynamics, Inc. v. Quanta Comput., Inc.*, 694 F.3d 51, 67–68 (Fed. Cir. 2012).

At trial, the Plaintiff attempted to tie the royalty base to the incremental value of the infringement by multiplying the total number of users of the infringing technology by the percentage of web traffic that passed through the so-called smallest saleable unit performing the infringing method. The plaintiff argued its apportionment methodology was adequate because it was limited to the "smallest, identifiable technical component" tied to the footprint of the invention. The plaintiff further argued that its methodology was sufficient because it had demonstrated at trial that the non-infringing functions of the smallest saleable unit were unimportant.

The Federal Circuit rejected plaintiff's arguments. First, the court explained that a royalty base based on the "smallest, identifiable technical component" does not adequately address the "essential requirement" that the "ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product." Citing *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014), the Federal Circuit explained that if the smallest identifiable technical

component contains non-infringing features, additional apportionment is still required. With respect to the plaintiff's argument that the non-infringing functions were unimportant, the Federal Circuit stated that even though the infringing functionality was undoubtedly important, other non-infringing functions were also valued by customers. In sum, the Federal Circuit rejected the plaintiff's royalty base argument and ruled that further apportionment was required to reflect the value of performing the patented function as compared to the value of performing unpatented functions.

This decision shows the Federal Circuit's continued focus on apportionment in reasonable royalty calculations. From a plaintiff's perspective, associating the invention with the smallest saleable unit is more important than ever. From a defendant's perspective, this decision provides a good roadmap for attacking damages calculations based on failure to apportion.

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